

ANNUAL FINANCIAL REPORT

OF THE

BOX ELDER SCHOOL DISTRICT

960 South Main

Brigham City, Utah 84302

For the Fiscal Year Ended

June 30, 2005

Kelly Nelson, President of the Board

Dr. Martell Menlove, Superintendent

Ronald L. Frandsen, CPA, Business Administrator

**BOX ELDER SCHOOL DISTRICT
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BOX ELDER SCHOOL DISTRICT

Dr. Martell Menlove, Superintendent

BOARD OF EDUCATION
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November 9, 2005

To: President Nelson, Members of the Board of Education, and the Patrons of the Box Elder School District:

State law requires that school districts publish, within five months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited by a firm of licensed Certified Public Accountants in accordance with auditing standards generally accepted in the United States of America. Pursuant to that requirement, we hereby issue the annual financial report of the Box Elder School District (District) for the fiscal year ended June 30, 2005.

These statements are designed to meet the needs of a broad spectrum of readers of financial statements and are divided into three major sections:

- **Introductory section** – Introduces the reader to the report and includes this transmittal letter, the organizational chart of the District, the list of elected and appointed officials, and a map of precincts of the Board of Education.
- **Financial section** – Consists of the independent auditor's report, management's discussion and analysis, the basic financial statements, and combining and individual fund statements and schedules.
- **Statistical section** – Contains substantial financial information, but presents tables that differ from financial statements in that they present non-accounting data, cover several years, and are designed to reflect social and economic data and financial and fiscal trends as well as the fiscal capacity of the District.

Internal controls. This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Independent audits. Wiggins & Co. P.C., a firm of licensed Certified Public Accountants, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District's separately issued Single Audit Report.

Management's discussion and analysis. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in connection with it. The District's MD&A can be found immediately following the report of the independent auditors.

District profile. The District was created by a resolution of the Box Elder County Commissioners on June 20, 1907. The District is a legally separate entity enjoying all rights and privileges accorded political subdivisions in the State of Utah. The District is fiscally independent. Policymaking and legislative authority are vested in the Board of Education consisting of five members. The Board of Education is responsible, among other things, for developing policy, adopting the budget, levying taxes, incurring bonded debt, supervising committees, and hiring both the superintendent and business administrator. The superintendent and business administrator are responsible for carrying out the policies of the Board of Education and oversee the day-to-day operations of the District. The Board of Education is elected on a non-partisan basis. Board members serve four-year staggered terms with no more than three board members elected every two years.

The major purpose of the District is to provide public education for those who reside within the boundaries of the District, which are congruent with boundaries of Box Elder County. To accomplish this purpose, as of Fall 2005, the District operates two traditional high schools (grades 10-12), two middle schools (grades 8-9), two intermediate schools (grades 6-7), and 14 elementary schools (grades k-5). The District also operates four schools in the far western area of the county, which are designated as Necessarily Existent Small Schools (NESS). These schools have enrollments of 15 to 48 students and provide instruction for classes ranging from kindergarten through tenth grade. In addition, the District operates an alternative high school, Dale Young Community High School. The District serves approximately 10,600 students.

Budgetary control. The District adopts an annual budget for its funds. This budget acts as the financial operating plan for the entire year. Revisions may be implemented during the year authorizing a larger appropriation of available resources through a public hearing and approval from the Board.

All annual appropriations lapse at fiscal year end with the exception of those indicated as a reserve against the fund balance. During May of each year, the superintendent submits to the

Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Also included is the final budget for the fiscal year ending June 30th.

If the district does not propose to exceed the certified tax rate, a public hearing is held prior to June 22nd at which the budget is formally adopted by resolution of the Board after public input. If the District proposes to exceed the certified tax rate the budget is formally adopted in August when data is available to set the rates.

The District's fiscal 2005 balances along with anticipated revenues are sufficient to meet the fiscal 2005 budget as presented to the public in August of 2005.

Economic condition and outlook. The economic prospect for the District is largely dependent on state aid, which provides 76% of general fund revenues. Since 1988 the State of Utah has been able to end each fiscal year with a surplus. However, since fiscal year 2002, the rate of Utah's economic growth has slowed. The economy of the state has been impaired by national economic stagnation, slowing global economic growth, and an increasing jobless rate.

The taxable property values in the county have increased less than 3.5% over the past five years. Other economic indicators for the county are similarly flat.

Student enrollment. The state school finance program for fiscal 2005 provided every Utah school district with a basic operation program of \$2,182 per weighted pupil unit (WPU) (compared to \$2,150 per WPU in fiscal 2004 and \$2,132 per WPU in fiscal 2003) plus added amounts for other special programs and grants. Enrollment has declined from a high of 11,320 in the October 1st count in 1993 to 10,587 in 2005 which is 58 higher than last year. Based on information from Utah's Bureau of Vital Records, enrollments should increase slightly next year. Projections indicate that it will take several years to regain the 11,320 level.

Cash management and investments. The District utilizes the Utah Public Treasurer's Investment Fund (UPTIF) as a cash and investment pool that is available for use by all funds. This is an external deposit and investment pool shared by various governmental entities in the state in which monies are pooled to improve investment efficiency and yield. These funds are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

The Fund investments must comply with the provisions of the Utah Money Management Act. This law requires the depositing of funds in a "qualified depository" which is defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. The District considers the actions of the Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

Risk management. The District participates with an equity position in the Utah School Boards Risk Management Mutual Insurance Association to cover its workers compensation risks. Unemployment compensation is handled on a cost of benefits reimbursement basis with the

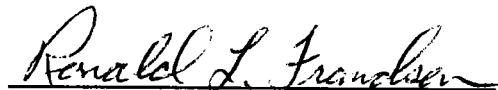
State of Utah. The District also participates in the State Risk Management system for property and liability insurance. This is a pooled arrangement where the participating entity's annual premiums are designed to pay claims and build sufficient reserves to allow the system to protect participants with its own capital. The pool reinsures excess loss to preserve the capital base.

Acknowledgements. We express our appreciation to everyone in the business department who assisted in the preparation of this report. Special appreciation goes to Fred Burr of Wiggins & Co. P.C. who assisted in this first-time preparation of the financial statements under the GASB 34 model. We also thank the members of the Board of Education for their interest and support in conducting the financial affairs of the District in a responsible and progressive manner.

Respectfully submitted,



Martell Menlove, Ed.D.
Superintendent



Ronald L. Frandsen, CPA
Business Administrator

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Box Elder School District
Brigham City, Utah 84302

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Box Elder School District, Utah (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Box Elder School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary combining, nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the same auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2005, on our consideration of Box Elder School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Box Elder School District basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements of Box Elder School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wiggins & Co., PC
Brigham City, Utah
October 6, 2005

Management's Discussion and Analysis

As the management of the Box Elder School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 4 of this report.

Financial Highlights

The District categorizes its revenues in three groups by source, federal, state, and local. Federal revenues include categorical funding for special programs, grants, and other specifically designated purposes. State revenues include categorical funding as described above, enrollment based funding using weighted pupil units (WPU), and other funding which is distributed by various formulas designed to assure an equitable allocation among all districts in the state. Local revenues are derived from property tax, tuition, other fees and charges, and interest income.

Revenues from state sources have declined for the past two years. This is caused by the general condition of the economy, and the declining enrollment of students in the District. In five of the last seven years, the Board of Education has increased local property tax rates to maintain District programs. Since the 2000-2001 school year, the Board has also eliminated 32 positions to compensate for the declining state revenues.

In 1993 the District issued \$28,500,000 in General Obligation Bonds (1993 Series). The last three payments on that issue were defeased by issuance of \$10,885,000 in General Obligation Refunding Bonds on August 9, 2001. This action was taken to secure a more favorable interest rate on the indebtedness. The final payment on that bonded debt will be made June 15, 2006.

At its meeting on July 21, 2004, the Board adopted a resolution forming a Municipal Building Authority (MBA) for the purpose of issuing bonds, constructing a replacement elementary school for Young/Perry Elementary, and leasing the building to the District. Lease payments will retire any bonds issued. Revenue for the lease payments will come from the Capital Outlay Fund. When the General Obligation Bonds are retired on June 15, 2006, the tax levy for the Debt Service Fund will expire. A portion of that levy will then be imposed under the Capital Outlay Fund to fund the lease/purchase obligation to the MBA. At subsequent meetings on August 18 and October 13, 2004, the Board and the MBA formalized those arrangements. Bids totaling \$6,920,614 for construction, site improvements, professional fees, and equipment relating to the construction of the replacement school were accepted. In accordance with the terms of this contract, the building was ready for occupancy at the beginning of the school year, August 25, 2005. Bonds in the amount of \$7,400,000 were sold on October 26, 2004.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The Government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The Government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 – 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

The District uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 23 of this report.

Component unit. A Component Unit is a distinct legal entity separate from the District, the resource of which is dedicated to furthering the interests of the District. These funds are **not** reflected in the government-wide financial statements because the resources of those funds are not available at the District's discretion. However, since those resources are dedicated to furthering the interests of the District the financial statements of the Box Elder County School District Foundation are presented as a component unit.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 36 of this report.

Other information. The combining statements referred to in connection with nonmajor governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 40 - 44 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. The District assets exceeded liabilities by \$48,165,122 at the close of the most recent fiscal year.

BOX ELDER SCHOOL DISTRICT'S Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 17,636,066	\$ 19,376,254
Capital assets	44,795,292	45,645,690
Total assets	62,431,358	65,021,944
Other liabilities	10,052,941	10,691,084
Long-term liabilities outstanding	4,271,786	7,874,189
Total liabilities	14,324,727	18,565,273
Net assets:		
Invested in capital assets, net of related debt	40,786,705	37,775,622
Restricted	3,473,336	6,659,835
Unrestricted	3,846,590	2,021,215
Total net assets	<u>\$ 48,106,631</u>	<u>\$ 46,456,672</u>

The largest portion of the District's net assets (85%) reflects its investment in capital assets (e.g. land, water stock, buildings and improvements, furniture and equipment), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are **not** available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (7.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,846,590) may be used to meet the District's ongoing obligations to students, employees, and creditors.

BOX ELDER SCHOOL DISTRICT'S Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,115,534	\$ 2,830,845
Operating grants and contributions	24,597,390	21,774,086
Capital grants and contributions	111,847	1,278,389
General revenues:		
Property taxes	14,632,863	14,596,203
Federal and state aid not restricted to specific purposes	20,297,127	21,243,542
Earnings on investments	522,535	389,058
Miscellaneous	16,436	15,619
Total revenues	<u>63,293,732</u>	<u>62,127,742</u>
Expenses:		
Instructional services	38,465,216	35,781,190
Supporting services:		
Students	1,880,514	1,854,898
Instructional staff	1,568,135	1,508,721
District administration	693,956	643,720
School administration	3,690,921	3,586,920
Business	560,171	308,603
Operation and maintenance of facilities	6,366,449	6,083,166
Transportation	2,976,246	2,716,446
Central services	8,647	215,474
Community services	1,205,429	1,257,764
School lunch services	3,476,503	3,181,434
Capital outlay	278,195	668,983
Interest on long-term liabilities	473,391	634,145
Total expenses	<u>61,643,773</u>	<u>58,441,464</u>
Excess of revenues over expenditures	<u>1,649,959</u>	<u>3,686,278</u>
Increase in net assets	<u>1,649,959</u>	<u>3,686,278</u>
Net assets-beginning	<u>46,456,672</u>	<u>42,770,394</u>
Net assets-ending	<u>\$ 48,106,631</u>	<u>\$ 46,456,672</u>

The unrestricted net asset amount has been designated for the following purposes:

- Designation for undistributed reserve of \$1,670,000 or 3.3% of general fund budgeted revenues. As allowed by state law, the District has established an undistributed reserve within the general fund which is set aside for contingencies or possible reductions in state funding. These funds are not to be used in negotiation or settlement of contract salaries. The maintenance of a sufficient reserve is a key credit consideration in the District's bond rating.
- Reservation for program designations of \$2,927,428. Net assets within the general fund are reserved to pay for commitments at June 30, 2005 that will be reappropriated and honored during the subsequent year.
- Post employment healthcare benefit obligation. The District provides healthcare benefits for eligible retired employees. This benefit is recorded as an expense as healthcare premiums are paid. Certain employees who elect to retire early under the District's early retirement program receive healthcare

benefits up to four years. The District estimates its healthcare obligation for early retirees is \$983,472 as of June 30, 2005.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for the District as a whole, as well as for its separate governmental activities. This status is consistent with that of the prior fiscal year.

The total net assets of the District increased by \$1,649,959 during the fiscal year. Of that amount \$418,384 is due to an increase in receivables. The remaining amount is a result of the decrease in long-term liabilities.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to restrict resources for certain government-wide liabilities and post employment obligations that are not recognized in the governmental funds. State law requires that undesignated balances in the general fund be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

The General Fund is the chief operating fund of the District. At the end of the fiscal year, the unreserved and undesignated fund balance was \$16,291 while the total fund balance was \$4,613,719. The unreserved and undesignated fund balance decreased by \$678 while the total fund balance increased by \$571,891 during the current fiscal year. Key factors in this growth are as follows:

- The decrease in unreserved and undesignated fund balances reflects the economic constraints of state funding and local tax revenues.
- The increase in total fund balance is a result of encumbrances for program expenditures.

Expenditures for general District purposes totaled \$51,657,985, which is an increase of 4.6% over the previous year. This increase was due to the increase in health insurance premiums and salary increases. Instructional services represent 67.3% of general fund expenditures.

General Fund salaries totaled \$32,169,514 while the associated fringe benefits of retirement, social security, unemployment, worker's compensation, and health and accident insurance added \$12,875,540, which is 85.7% of general fund expenditures.

The Capital Projects Fund has a total balance of \$838,606, all of which is restricted for acquisition of capital assets and purchase of supplies and related expenditures. The fund balance decreased significantly during the year due to a \$1,500,000 transfer to the General Fund.

The Debt Service Fund has a total fund balance of \$732,897, all of which is reserved for the payment of debt service on general obligation bonds. The fund balance decreased during the year primarily because of a change in the tax rate, which generated less revenue.

The School Lunch Special Revenue Fund balance of \$734,122 includes \$153,715 for inventories. The entire balance is restricted to the school lunch program.

The Box Elder County School District Foundation received contributions of \$40,870 during the year to assist various school programs.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$494,671 or .95% of total general fund expenditures. During the year, the final revenues fell short of original budgetary estimates by \$498,327 or .97%

Capital Asset and Debt Administration

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

The District operates schools in twenty four locations with administrative and maintenance facilities at three separate sites. These buildings total more than 1,613,139 square feet and are spread across an area of 5,594 square miles, or, more than the five smallest states. These structures and their additions have construction dates ranging from 1912 to 2005.

Additional information on the District's capital assets can be found in Note 4 to the basic financial statements.

Debt Administration.

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2005, is \$84,246,308. General obligation debt at June 30, 2005 was \$3,800,000, resulting in a legal debt margin of \$80,446,308.

Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

Changing Enrollment within the District

The components of changing enrollment are migration and the kindergarten-to-grade-12 (K-12) differential. The K-12 differential is the variance in the number of kindergarten students entering and the number of grade 12 students leaving the District in a given year.

Enrollment in the District has been consistently declining since 1993, from a high of 11,320 to the present level of 10,587, which is slightly higher than last year. Present projections show that enrollment will remain relatively flat for a time before beginning a gradual increase. If current birth and migration trends remain constant, student population may increase to the 1993 enrollment of 11,320 in the next five to seven years. Any increase in student population will also increase basic funding from the state.

Requests for Information

This financial report is designed to provide a general overview of the Box Elder School District's finances for all those with an interest in such matters. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, Box Elder School District, 960 South Main, Brigham City, Utah 84302-3162.

Basic Financial Statements

BOX ELDER SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 15,735,486	\$ -	\$ 15,735,486	\$ 177,174
Investments	33,687	-	33,687	108,393
Receivables:				
Property taxes	-	-	-	-
Accounts	176,588	-	176,588	-
Intergovernmental	938,245	-	938,245	-
Due from other funds	493,199	-	493,199	-
Inventories	153,715	-	153,715	-
Prepaid expense	12,729	-	12,729	-
Restricted cash and cash equivalents	-	1,548,911	1,548,911	-
Bond issuance costs, net	19,552	86,525	106,077	-
Bond refunding- deferred charges	72,865	-	72,865	-
Capital assets:				
Land, construction in progress, and water stock	2,624,973	6,584,184	9,209,157	-
Other capital assets, net of depreciation	42,170,319	-	42,170,319	-
Total assets	<u>62,431,358</u>	<u>8,219,620</u>	<u>70,650,978</u>	<u>285,567</u>
Liabilities:				
Accounts payable	597,835	267,930	865,765	38,780
Due to other funds	-	493,199	493,199	-
Deposits payable	834,319	-	834,319	-
Accrued interest	7,920	-	7,920	-
Accrued salaries and benefits	4,604,280	-	4,604,280	-
Noncurrent liabilities:				
Due within one year	4,008,587	-	4,008,587	-
Due in more than one year	4,271,786	7,400,000	11,671,786	-
Total liabilities	<u>14,324,727</u>	<u>8,161,129</u>	<u>22,485,856</u>	<u>38,780</u>
Net Assets:				
Invested in capital assets, net of related debt	40,786,705	58,491	40,845,196	-
Restricted for:				
School lunch	734,122	-	734,122	-
Non K-12 programs	178,677	-	178,677	-
Capital projects	838,606	-	838,606	-
Building Reserve	989,034	-	989,034	-
Debt service	732,897	-	732,897	-
Endowments	-	-	-	68,475
Unrestricted	3,846,590	-	3,846,590	178,312
Total net assets	<u>\$ 48,106,631</u>	<u>\$ 58,491</u>	<u>\$ 48,165,122</u>	<u>\$ 246,787</u>

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Governmental activities:						
Instructional services	\$ 38,465,216	\$ 1,374,058	\$ 18,668,176	\$ -	\$ (18,422,982)	\$ -
Supporting services:						
Students	1,880,514	132,385	700,515	-	(1,047,614)	-
Instructional staff	1,568,135	-	1,169,302	-	(398,833)	-
District administration	693,956	-	54,550	-	(639,406)	-
School administration	3,690,921	-	-	-	(3,690,921)	-
Business	560,171	-	-	-	(560,171)	-
Operation and maintenance of facilities	6,366,449	96,495	-	-	(6,269,954)	-
Transportation	2,976,246	-	2,072,799	-	(903,447)	-
Central	8,647	-	-	-	(8,647)	-
Community services	1,205,429	189,127	-	-	(1,016,302)	-
School lunch services	3,476,503	1,323,469	1,932,048	-	(220,986)	-
Capital outlay	278,195	-	-	111,847	(166,348)	-
Interest on long-term liabilities	473,391	-	-	-	(473,391)	-
Total governmental activities	61,643,773	3,115,534	24,597,390	111,847	(33,819,002)	-
Business-type activities:						
Municipal Building Authority	-	-	-	-	-	-
Total primary government	61,643,773	3,115,534	24,597,390	111,847	-	-
Component unit:						
Box Elder Foundation	101,558	-	102,553	-	-	995
General revenues:						
Property taxes levied for:						
General purposes					6,872,466	-
Transportation					284,743	-
Recreation					1,085,181	-
Debt service					3,686,200	-
Capital outlay					2,704,273	-
Federal and state aid not restricted to specific purposes					20,297,127	-
Earnings on investments					522,535	-
Miscellaneous					16,436	-
Total general revenues					35,468,961	6,556
Change in net assets					1,649,959	7,551
Net assets - beginning					46,456,672	239,236
Net assets - ending					\$ 48,106,631	\$ 246,787

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and investments	\$ 10,606,062	\$ 1,594,871	\$ 1,477,739	\$ 2,090,501	\$ 15,769,173
Accounts receivable	128,384	6,943	15,911	25,350	176,588
Intergovernmental receivable	859,573	-	-	78,672	938,245
Due from other funds	493,199	-	-	-	493,199
Prepaid expenses	-	-	12,729	-	12,729
Inventory	-	-	-	153,715	153,715
Total assets	<u>\$ 12,087,218</u>	<u>\$ 1,601,814</u>	<u>\$ 1,506,379</u>	<u>\$ 2,348,238</u>	<u>\$ 17,543,649</u>
Liabilities and fund balances:					
Liabilities:					
Accounts payable	\$ 497,738	\$ -	\$ 35,833	\$ 64,264	\$ 597,835
Deposits payable	834,319	-	-	-	834,319
Accrued salaries and benefits	4,475,128	-	-	129,152	4,604,280
Deferred revenue	1,666,314	868,917	631,940	252,989	3,420,160
Total Liabilities	<u>7,473,499</u>	<u>868,917</u>	<u>667,773</u>	<u>446,405</u>	<u>9,456,594</u>
Fund Balances:					
Reserved for:					
Inventories	-	-	-	153,715	153,715
Unreserved:					
Designated for:					
Undistributed reserve	1,670,000	-	-	-	1,670,000
Program designations	2,927,428	-	-	1,072,296	3,999,724
Undesignated, reported in:					
Unappropriated fund balance	16,291	732,897	838,606	675,822	2,263,616
Total fund balances	<u>4,613,719</u>	<u>732,897</u>	<u>838,606</u>	<u>1,901,833</u>	<u>\$ 8,087,055</u>
Total liabilities and fund balances	<u>\$ 12,087,218</u>	<u>\$ 1,601,814</u>	<u>\$ 1,506,379</u>	<u>\$ 2,348,238</u>	<u>\$ 17,543,649</u>

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 8,087,055
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$84,978,139 and the accumulated depreciation is \$40,182,847.	44,795,292
Property tax revenue is recognized when earned (claim to resources established) rather than when available. A portion of the deferred property tax revenue is not available.	3,420,160
Interest is recognized when incurred, rather than when paid. Accrued interest for general obligation bonds is \$7,290.	(7,920)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$78,209 and accumulated amortization is \$58,657 .	19,552
Bond refunding deferred charges are reported as expenditures in the governmental funds. The cost is \$291,459 and the accumulated amortization is \$218,594 .	72,865
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(8,280,373)</u>
Total net assets - governmental activities	<u>\$ 48,106,631</u>

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 7,055,299	\$ 3,679,060	\$ 2,675,680	\$ 1,071,176	\$ 14,481,215
Charges for services	980,563	-	63,815	1,657,296	2,701,674
Earnings on investment	225,989	79,346	73,082	48,368	426,785
Other revenue	115,930	-	33,687	-	149,617
State aid	38,432,128	-	78,160	986,769	39,497,057
Federal aid	3,919,967	-	-	1,625,968	5,545,935
Total revenues	50,729,876	3,758,406	2,924,424	5,389,577	62,802,283
Expenditures:					
Current:					
Instructional services	35,447,871	-	-	770,309	36,218,180
Supporting services:					
Students	1,880,514	-	-	-	1,880,514
Instructional staff	1,305,477	-	-	261,071	1,566,548
General administration	575,584	-	-	74,276	649,860
School administration	3,460,135	-	-	-	3,460,135
Business	531,420	-	-	-	531,420
Operation and maintenance of facilities	5,626,788	-	425,000	14,867	6,066,655
Student transportation	2,830,196	-	-	-	2,830,196
Central services	-	-	-	-	-
Community services	-	-	-	1,205,429	1,205,429
School lunch services	-	-	-	3,084,124	3,084,124
Facilities acquisition/construction	-	-	2,138,062	-	2,138,062
Debt service:					
Principal retirement	-	3,620,000	145,730	-	3,765,730
Interest and fiscal charges	-	374,000	7,016	-	381,016
Other	-	7,500	-	-	7,500
Total expenditures	51,657,985	4,001,500	2,715,808	5,410,076	63,785,369
Excess (deficiency) of revenues over (under) expenditures	(928,109)	(243,094)	208,616	(20,499)	(983,086)
Other financing sources (uses):					
Insurance proceeds	-	-	2,860	-	2,860
Proceeds from capital lease	-	-	-	-	-
Sale of fixed assets	-	-	54,270	-	54,270
Operating transfers in	1,500,000	-	-	-	1,500,000
Operating transfers out	-	-	(1,500,000)	-	(1,500,000)
Bond proceeds	-	-	-	-	-
Bond refunding and related costs	-	-	-	-	-
Total other financing sources (uses)	1,500,000	-	(1,442,870)	-	57,130
Net change in fund balances	571,891	(243,094)	(1,234,254)	(20,499)	(925,956)
Fund balances - beginning	4,041,828	975,991	2,072,860	1,922,332	9,013,011
Fund balances - ending	\$ 4,613,719	\$ 732,897	\$ 838,606	\$ 1,901,833	\$ 8,087,055

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (925,956)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 1,859,867	
Proceeds from sales of capital assets	(8,016)	
Depreciation expense	<u>(2,702,249)</u>	(850,398)

Fixed assets acquired by capital leases are shown as expenditures and other financing sources in the governmental funds. Equipment financed by the capital lease has been expensed since it is below the District's capitalization threshold. However, the principal payments on the capital lease must be removed from the statement of activities and applied to the lease liability. Interest expense is reported as it accrues; however, the July amount was prepaid in June and therefore no accrued interest has been reported.

Other financing source - capital lease	-	
Interest expense - capital leases	-	
Principal payments of capital leases	<u>145,730</u>	145,730

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums as other financing sources and uses, whereas these amounts are deferred and amortized over the life of the bonds in the statement of activities. Interest is recognized as an expenditure in the governmental fund when it is paid, whereas in the statement of activities interest is recognized as it accrues, regardless of when payment is made. The net effect of these differences in the treatment of general obligation debt and related items is as follows:

General obligation refunding bond proceeds	-	
Payment to refunded bond escrow agent	-	
Bond refunding-deferred charges	(72,864)	
Repayment of bond principal	3,620,000	
Notes/ Land Payable	-	
Interest expense - general obligation bonds	7,539	
Amortization of bond issuance costs	(19,552)	
Amortization of bond premium	<u>95,751</u>	3,630,874

Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. However, they are recorded as revenue in the statement of activities. Deferred property tax revenues increased during the year.

151,647

In the statement of activities, certain operating expenses, such as, compensated absences, special post employment benefits and claims, are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During 2005, compensated absences payable decreased by \$4,108, post employment benefits payable increased by \$506,046.

(501,938)

Changes in net assets of governmental activities

\$ 1,649,959

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Property taxes	\$ 6,957,940	\$ 6,957,940	\$ 7,055,299	\$ 97,359
Charges for services	1,110,000	945,000	980,563	35,563
Earnings on investments	160,000	195,000	225,989	30,989
Other	390,150	1,100,000	115,930	(984,070)
State aid	38,840,113	38,292,320	38,432,128	139,808
Federal aid	3,770,000	3,770,572	3,919,967	149,395
Total revenues	51,228,203	51,260,832	50,729,876	(530,956)
Expenditures:				
Current:				
Instructional services	35,325,322	35,886,837	35,447,871	438,966
Supporting services:				
Students	1,912,051	1,929,891	1,880,514	49,377
Instructional staff	1,273,123	1,533,940	1,305,477	228,463
General administration	622,240	585,730	575,584	10,146
School administration	3,465,677	3,481,153	3,460,135	21,018
Business	514,448	526,944	531,420	(4,476)
Operation and maintenance of facilities	6,128,637	5,760,578	5,626,788	133,790
Student transportation	2,806,705	2,837,801	2,830,196	7,605
Central services	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Other	-	-	-	-
Total expenditures	52,048,203	52,542,874	51,657,985	884,889
Excess of revenues over expenditures	(820,000)	(1,282,042)	(928,109)	353,933
Other financing sources (uses):				
Transfer in	700,000	1,400,000	1,500,000	100,000
Transfer out	-	(120,000)	-	120,000
Net change in fund balances	(120,000)	(2,042)	571,891	573,933
Fund balances - beginning	4,041,828	4,041,828	4,041,828	-
Fund balances - ending	\$ 3,921,828	\$ 4,039,786	\$ 4,613,719	\$ 573,933

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Enterprise Fund- Municipal Building Authority
Operating revenues:	
Charges for sales and services:	
Lease revenue	\$ -
Other services	-
Total operating revenues	<u>-</u>
Operating expenses:	
Municipal Building Authority management	-
Depreciation	-
Total operating expenses	<u>-</u>
Operating income	<u>-</u>
Nonoperating revenues (expenses):	
Intergovernmental	-
Investment earnings	58,491
Interest and fiscal charges	-
Bond issuance costs amortization	-
Gain (Loss) on sale of fixed assets	-
Total nonoperating revenue (expenses)	<u>58,491</u>
Income before contributions and transfers	<u>58,491</u>
Transfers in	-
Transfers out	-
Change in net assets	<u>58,491</u>
Total net assets - beginning	-
Total net assets - ending	<u>\$ 58,491</u>

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Enterprise Fund Municipal Building Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ -
Payments to suppliers	-
Payments to employees	-
Other receipts	-
Net cash provided by operating activities	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer out to other funds	-
Net cash used by noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for acquisition of capital assets	(6,316,254)
Proceeds from lease revenue bonds	7,400,000
Proceeds from short term interfund loan	493,199
Payments for bond issuance costs	(86,525)
Principal payments on lease revenue bonds	-
Interest paid on lease revenue bonds	-
Net cash provided (used) from capital and related financing activities	1,490,420
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	58,491
Net cash provided from investing activities	58,491
Net increase (decrease) in cash and cash equivalents	1,548,911
Cash and cash equivalents beginning of year	-
Cash and cash equivalents end of year	\$ 1,548,911
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Operating income	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	-
Change in assets and liabilities:	
Accounts receivable	-
Accounts payable	-
Accrued payroll liabilities	-
Obligation for compensated absences	-
Net cash provided by (used in) operating activities	\$ -

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2005

	Agency Fund	Student Activities Fund	Total
Assets:			
Cash and cash equivalents	\$ 325,047	\$ 549,699	\$ 874,746
Accounts receivable	36,882	-	36,882
Due from other governments	75,007	-	75,007
Deposits receivable	-	834,319	834,319
	<u>\$ 436,936</u>	<u>\$ 1,384,018</u>	<u>\$ 1,820,954</u>
Liabilities			
Deposits	\$ -	\$ 88,946	\$ 88,946
Accounts payable	161,619	24,989	186,608
Intergovernmental payable	275,317	-	275,317
Due to student groups	-	1,270,083	1,270,083
Total liabilities	<u>\$ 436,936</u>	<u>\$ 1,384,018</u>	<u>\$ 1,820,954</u>

The notes to the financial statements are an integral part of this statement.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Box Elder School District is located in the north-central and north-western portion of the State of Utah. It was organized by State Statute and serves the citizens of Box Elder County. The District provides educational and related services.

The financial statements of Box Elder School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements include the School District, which is a political subdivision with corporate powers created under Utah State law, and its blended component unit, the Municipal Building Authority of Box Elder School District, collectively referred to as the financial reporting entity. As required by generally accepted accounting principles (GAAP), these financial statements present Box Elder School District (referred to as the "primary government" for reporting purposes). Box Elder School District Foundation is a discrete component unit, although a legally separate entity, of Box Elder School District.

The Municipal Building Authority of Box Elder School District is governed by a seven-member board which is the Board of Education. Its sole purpose is to finance and construct the District's public facilities. The financial statements of the Municipal Building Authority of Box Elder School District are included in the accompanying financial statements as a blended component unit.

Box Elder School District Foundation is a separate but affiliated, self-sustaining, not-for-profit organization. The Foundation was established to provide support for the Box Elder School District, its faculty and students, and to promote, sponsor and carry out educational, scientific, charitable and related activities and objectives within the Box Elder School District. It is governed by a board of directors made up of 15 individuals. The Foundation is considered to be a component unit of the District because the purpose of the Foundation is to exclusively, or almost exclusively, benefit the District by soliciting contributions and managing the funds. The Foundation has an audit performed annually, separate from the District. A copy of that audit report can be obtained by writing to the Box Elder School District Foundation, 960 South Main, Brigham City, Utah 84302.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services.

Fund Financial Statements. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. The remaining governmental funds are combined into a single column and reported as other (nonmajor) funds.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes are recorded when levied. Property taxes which have not been collected within 60 days, and therefore do not meet the "available" criterion, are reported as deferred revenue until collected. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Minimum school program revenues and other revenues from the Utah State Office of Education are considered "measurable" and recognized as revenue when available and remitted to the District in time to be used to pay current obligations. Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measurable and available only when cash is received by the District.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on long-term debt as well as expenditures related to compensated absences, post employment benefits and arbitrage rebates which are recognized only when payment is due.

The District reports the following major governmental funds:

General Fund - This fund accounts for all activities not accounted for by other funds of the District and is the principal fund. The main sources of revenue for this fund are property taxes and minimum school programs funded by the Utah State Office of Education.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or maintenance of major capital projects.

The District's nonmajor governmental funds include other special revenue funds and the Building Reserve Fund. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund Financial Statements. Proprietary funds include enterprise funds. Enterprise funds report the activities for which a fee is charged to external users for goods or services. The financial statements of the proprietary funds are reported similar to the government-wide financial statements in that they both use the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses result from providing goods and services relating to the primary operations of the proprietary fund. Other revenues and expenses are reported as nonoperating.

The Municipal Building Authority of Box Elder School District is the only proprietary fund reported in the financial statements. The MBA Fund accounts for the activity and operations of leasing and constructing public facilities.

Fiduciary Fund Financial Statements. The District has two fiduciary funds - Student Activities Agency Fund and regular Agency Fund. Agency Funds are used to account for assets held by the District as an agent for other governments, private organizations, or individuals. Agency Funds are accounted for using the accrual basis of accounting, but due to their custodial nature (assets equal liabilities) do not present results of operations or have a measurement focus.

Amounts reported as program revenues include 1) charges to students for tuition, fees, rental, material, supplies, or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

D. Budgets

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for funds. All annual appropriations lapse at fiscal year end.

The District operates within the budget requirements as specified by State law. The financial reports reflect the following budgetary standards.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. In May of each year, the District Superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1. This budget includes proposed expenditures and the means of financing them. A final budget for the current year, ending June 30th, is also included.
2. The tentative budget is made available for public inspection at least ten days prior to a public hearing on adoption of the final budget.
3. If the budget does not propose to exceed the certified tax rate, a public hearing for taxpayer input is held prior to June 22nd of each year. The budget is then legally adopted by resolution of the Board. If the budget proposes a rate that exceeds the certified tax rate, the budget is formally adopted in August, when data is available to set new rates.
4. Once adopted, the budget can be amended by subsequent Board action. Reductions in appropriations can be approved by the Board, but increased appropriations in the governmental funds require a public hearing prior to amending the budget. Budgets may be increased provided that notice of such action is published seven days before the meeting. The budgetary information presented is the final amended budget.
5. Minor interim adjustments in estimated revenue and appropriations during the year ended June 30, 2005, have been included in the final budget approved by the Board, as presented in the financial statements.
6. Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as a designation to the fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.
7. As determined by State law, the level for which expenditures may not legally exceed appropriations is the total budget of a given department or fund.
8. Negative variances in total revenues and positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume that expenditure of all available resources. Therefore, when the budget is prepared, it is assumed that these funds will not have a carryover or revenue to a subsequent year. Program revenue received, but not spent, is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

E. Cash and Cash Equivalents and Temporary Investments

Unrestricted cash balances of all funds are combined to form a pool of cash and investments which is managed by the Business Administrator in accordance with the Utah Money Management Act. Income from the investment of pooled cash is allocated based upon each fund's portion of the pool. Restricted cash consists of that portion of pooled cash that is restricted for a specific use due to constraints imposed by external parties or enabling legislation, or is cash held in trust in compliance with bond covenant, terms and conditions. When both restricted and unrestricted sources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are recorded at fair value based upon quoted market prices as of June 30, 2005, except where there is no material difference between cost and fair value. The difference between the purchase price and market price when material is recorded as interest income.

A statement of cash flows is presented for proprietary funds under the direct method. For purposes of the statement of cash flows, the fund's allocated portion of pooled cash and investments is considered to be cash and cash equivalents, since this amount is immediately available for use by the fund.

F. Interfund transactions

Interfund transactions represent transactions between different funds within the District. In general, interfund activity has been eliminated from the government-wide financial statements in an effort to minimize the doubling-up of revenues and expenses resulting from such transactions.

G. Private-sector Standards of Accounting and Financial Reporting

The District generally applies to the government-wide financial statements all *Financial Accounting Standards Board (FASB)* Statements and Interpretations, APB Opinions, and Accounting Research bulletins issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board (GASB)*. The District has elected not to follow private-sector guidance subsequent to that date.

H. Capital Assets

Capital assets include land, buildings, improvements other than buildings, leasehold improvements, furniture, fixtures and equipment, vehicles, infrastructure (roads, bridges, lighting and flood control) and construction in progress. These assets are reported in the government-wide financial statements in the relevant column on the Statement of Net Assets under governmental activities. Capital assets acquired by governmental funds are recorded as expenditures in the governmental fund financial statements. The capitalization threshold for personal property is defined to be assets with a useful life of at least one year and costing at least \$5,000; real property thresholds vary by type of asset, but are generally established at the same amount. Assets purchased or constructed are generally recorded at cost. If precise cost is not available (as was the case with certain infrastructure), the asset is recorded at estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

When constructing capital assets, interest expense incurred relating to governmental activities is not capitalized.

Depreciation of all exhaustible capital assets is charged to the various functional expenses in the government-wide Statement of Activities. Accumulated depreciation is reported on the government-wide Statement of Net Assets. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 years
Improvements	5-40 years
Equipment	5-20 years
Vehicles	5-10 years

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

It is the District's policy to permit employees to accumulate earned-but-not-used vacation benefits in accordance with negotiated agreements. An estimate of vacation pay is accrued when incurred in government-wide financial statements and proprietary funds and reported as a liability. A liability for these amounts is reported in the governmental funds only if benefits have matured as a result of employee resignations and retirements.

J. Long-term liabilities

In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, defeasance costs, (the difference between the carrying amount of the defeased debt and its reacquisition price in bond refunding), as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

L. Inventories

Inventories for the Special Revenue Fund (School Food Services Fund) are valued at average cost utilizing the weighted average method.

M. Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and natural disasters. To help manage these risks, the District participates in the Utah State Risk Management Fund, a public entity that operates like an insurance carrier. The Treasurer for the District is insured against errors and omissions through a private insurance carrier. The District also participates in the Utah School Boards Risk Management Mutual Insurance Association to cover its workers compensation risks.

NOTE 2. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. County property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3. RECEIVABLES

Receivables at June 30, 2005, consist of the following:

	Taxes	Due from other Governments	Accounts	Total
Governmental activities:				
General Fund	\$ -	\$ 859,573	\$ 128,384	\$ 987,957
Debt Service Fund	-	-	6,943	6,943
Capital Projects Fund	-	-	15,911	15,911
Nonmajor Funds	-	78,672	25,350	104,022
Total receivables	<u>\$ -</u>	<u>\$ 938,245</u>	<u>\$ 176,588</u>	<u>\$1,114,833</u>

No allowance for uncollectible accounts has been provided for because the District believes that all accounts receivable are collectible.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,549,973	\$ -	\$ -	\$ 2,549,973
Construction in progress	65,782	-	(65,782)	-
Water stock	75,000	-	-	75,000
Total capital assets not being depreciated	<u>2,690,755</u>	<u>-</u>	<u>(65,782)</u>	<u>2,624,973</u>
Capital assets being depreciated:				
Buildings and improvements	71,427,205	541,987	-	71,969,192
Furniture, machinery and equipment and vehicles	9,665,238	1,383,662	(664,926)	10,383,974
Total capital assets being depreciated	<u>81,092,443</u>	<u>1,925,649</u>	<u>(664,926)</u>	<u>82,353,166</u>
Less accumulated depreciation				
Buildings and improvements	(31,740,770)	(1,812,444)	-	(33,553,214)
Furniture, machinery and equipment and vehicles	(6,396,738)	(889,805)	656,910	(6,629,633)
Total accumulated depreciation	<u>(38,137,508)</u>	<u>(2,702,249)</u>	<u>656,910</u>	<u>(40,182,847)</u>
Total capital assets being depreciated, net	<u>42,954,935</u>	<u>(776,600)</u>	<u>(8,016)</u>	<u>42,170,319</u>
Governmental activity capital assets, net	<u>\$ 45,645,690</u>	<u>\$ (776,600)</u>	<u>\$ (73,798)</u>	<u>\$ 44,795,292</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 525,416	\$ -	\$ 525,416
Construction in progress	-	6,058,768	-	6,058,768
Total capital assets not being depreciated	<u>-</u>	<u>6,584,184</u>	<u>-</u>	<u>6,584,184</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 1,871,576
Support services:	
Students	-
Instructional staff	-
General administration	31,887
School administration	184,023
Business	18,105
Operations/Maintenance of plant	288,060
Student transportation	137,004
Central services	8,647
Other	-
School food services	162,947
Facilities acquisition/construction	-
Total depreciation expense - governmental activities	<u>\$ 2,702,249</u>

**BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 5. RETIREMENT PLANS

Plan Description. Box Elder School District contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their annual covered salary (5% paid by the employer for the employee) and Box Elder School District is required to contribute 8.89% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, Box Elder School District is required to contribute 13.38% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Box Elder School District's contributions to the Local Governmental Contributory Retirement System for the years ended June 30, 2005, 2004 and 2003, were \$82,713, \$71,595 and \$63,214, respectively; and for the Noncontributory Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$4,027,825, \$3,423,568 and \$3,021,254, respectively. The contributions were equal to the required contributions for each year.

The District also participates in the Utah Retirement System 401(k) plan. The District funds 1.5% of eligible payroll costs. Vesting is immediate. The District contributed \$452,258 in 2005 and employee contributions were \$637,197.

The District also participates in the Educators Mutual Insurance Association 401(k) plan. The District funds 1.5% of eligible payroll costs. Vesting is immediate. The District contributed \$12,898 in 2005 and employee contributions were \$21,085.

**BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 6. LONG-TERM OBLIGATIONS

The District has the following long-term obligations at June 30, 2005.

On July 25, 2001, the District entered into an agreement to defease the last three maturities of the 1993 Series General Obligation Bonds through the issuance of General Obligation Refunding Bonds in the amount of \$10,885,000. Accordingly, these bonds were issued on August 9, 2001, at interest rates of 4.5% and 5.0%. An escrow of \$11,265,992 was established to pay the outstanding principal and interest of the 1993 Series Bonds. The outstanding balance of the defeased bonds at June 30, 2005, was \$3,800,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The general obligation bonds payable at June 30, 2005, are serviced by revenues generated and reported in the Debt Service Fund.

2001 G.O. Refunding Bonds:

Year	Principal	Interest	Total	Interest Rate
2006	\$ 3,800,000	\$ 190,000	\$ 3,990,000	5.00%

The Municipal Building Authority of Box Elder School District (MBA), a blended component unit of Box Elder School District, entered into agreements to issue lease revenue bonds in the amount of \$7,400,000, for the construction of a new school. The bonds were issued on October 26, 2004, and are payable over five years beginning June 15, 2007. The District has entered into a master lease agreement with the MBA, dated October 1, 2004, which requires the District to lease the school facility from the MBA through June 16, 2011. The lease amount is equal to the annual debt service for each fiscal year the lease is in force. The lease provides for a purchase price, which may be exercised by the District anytime during the period of the lease, equivalent to the outstanding principal balance on the lease revenue bonds. The following is a debt service schedule over the period of the bonds.

2004 Municipal Building Authority Lease Revenue Bonds:

Year	Principal	Interest	Total	Interest Rate
2006	\$ -	\$ 259,000	\$ 259,000	3.50%
2007	1,380,000	259,000	1,639,000	3.50%
2008	1,430,000	210,700	1,640,700	3.50%
2009	1,475,000	160,650	1,635,650	3.50%
2010	1,530,000	109,025	1,639,025	3.50%
2011	1,585,000	55,475	1,640,475	3.50%
	<u>\$ 7,400,000</u>	<u>\$ 1,053,850</u>	<u>\$ 8,453,850</u>	

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 6. LONG-TERM OBLIGATIONS (Continued)

The District has entered into a lease agreement as lessee for financing the acquisition of certain exercise equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments at the inception date.

The assets acquired through the capital lease are as follows:

	Governmental Activities
Asset:	
Exercise equipment	\$ 431,803
Less: accumulated depreciation	(97,036)
	<u>\$ 334,767</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 are as follows:

	Governmental Activities
2006	\$ 114,650
Less: amount representing interest	(1,813)
Present value of minimum lease payments	<u>\$ 112,837</u>

The Board of Education has approved a post employment and retirement incentive plan for the employees of the District. The plan is a single employer defined benefit plan administered by the District. At June 30, 2005, there were 114 persons eligible to receive benefits. During the year ended June 30, 2005, \$478,993 was expended on these post employment benefits. The plan is financed on a pay-as-you-go basis. The District has a potential liability for post-employment benefits for 62 retired employees. The District has recorded a liability for this estimated amount calculated at the net present value of the estimated liability. The amount recorded in the financial statements for 2005 is \$4,043,063.

Employees are eligible after they have completed 15 years of service and are at least 55 years old, or no age limits and have 30 years of service. Employees receive the following benefits:

1. Sick and personal leave bonus - employees receive 2% of their accumulated sick and personal leave for each year of service up to a maximum of 60%. The percentage is calculated against the final salary rate.
2. Insurance - employees receive couple insurance coverage until death, age 65, or 4 years after retirement date, whichever occurs first.

Classified employees who retire with at least ten years, but less than twenty years, of service are paid 10% of their accumulated sick and personal leave.

**BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 6. LONG-TERM OBLIGATIONS (Continued)

Transactions affecting long-term obligations are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable	\$ 7,420,000	\$ -	\$ (3,620,000)	\$ 3,800,000	\$ 3,800,000
Deferred amounts for insurance premium	191,501	-	(95,751)	95,750	95,750
Total Bonds payable	7,611,501	-	(3,715,751)	3,895,750	3,895,750
Capital lease	258,567	-	(145,730)	112,837	112,837
Compensated absences	232,949	-	(4,109)	228,840	-
Accrued medical benefits	354,944	195,582	-	550,526	-
Accrued post- employment benefits	3,181,958	310,462	-	3,492,420	-
Total Governmental	\$ 11,639,919	\$ 506,044	\$ (3,865,590)	\$ 8,280,373	\$ 4,008,587
Business-type activities:					
Bonds payable	\$ -	\$ 7,400,000	\$ -	7,400,000	\$ -

Included in construction in progress in the Municipal Building Authority of Box Elder School District Fund is \$118,228 in capitalized interest.

NOTE 7. DESIGNATIONS OF FUND BALANCE

The following is a detail of the designations of fund balance as reported in the balance sheet.

General Fund

This amount represents state grant and program funding received, but not yet spent. These funds are designated by the payor to specific purposes.

Debt Service Fund

This amount represents fund balance set aside for the retirement of general obligation debt.

Capital Projects Fund

This amount represents funds earmarked for specific construction projects or replacement of vehicles.

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended June 30, 2005, the School Lunch Special Revenue Fund had expenditures in excess of budget. These over expenditures were funded by available fund balance.

NOTE 9. CASH AND INVESTMENTS

The District maintains a Deposit and Investment Pool that is available for use by all funds of the District. Each fund type's portion of this pool is disclosed on the combined balance sheet as "cash and cash equivalents".

Deposits

At June 30, 2005, the carrying amount of the District deposits was \$6,269,113 and the bank balance was \$8,557,508. Of the bank balance, \$642,881 was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposit of public money at individual financial institutions, and the District follows these recommendations. The Foundation had deposits of \$177,174 with a bank balance of \$190,998, of which \$146,858 was insured.

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953 Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of District funds in a "qualified depository". The act defined a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Investments

At June 30, 2005, the District's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Equity Mutual Funds	\$ 33,687	N/A	N/A
First American Treasury Obligation Fund	\$ 1,548,911	Daily	Unrated
Utah Public Treasurer's Investment Fund	10,341,119	N/A	Unrated
Total	<u>\$ 11,923,717</u>		

At June 30, 2005, the Foundation's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Certificates of deposit	<u>\$ 108,393</u>	12 months	Unrated

BOX ELDER SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9. CASH AND INVESTMENTS (Continued)

Interest Rate Risk. The District has no policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests in the Utah Public Treasurer's Investment Fund which is short term.

Credit Risk. The District has no policy regarding credit risk. The investment in the Utah Public Treasurer's Investment Fund is unrated. These monies are invested primarily in money market securities. The investment in First American Treasury Obligations Fund is strictly short term and involves funds received from the MBA lease revenue bond and is expected to be used by November 2005.

Custodial Credit Risk. For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's \$33,687 investments in mutual funds are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the District's name. The District has no policy on custodial credit risk.

As reported in the financial statements:

Governmental Activities:	
Cash and cash equivalents	\$ 15,735,486
Investments	33,687
Business-type Activities:	
Restricted cash and cash equivalents	1,548,911
Component Unit:	
Cash and cash equivalents	177,174
Investments	108,393
Fiduciary Funds - cash and cash equivalents	874,746
	<u>\$ 18,478,397</u>

The Utah Public Treasurer's Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The Fund investments must comply with the provisions of the Utah Money Management Act. The Fund is not SEC registered and is unrated. The fair value of the School District's position in the fund is the same as the value of fund shares.

NOTE 10. RECONCILIATION OF INTERFUND BALANCES AND TRANSFERS

The following table provides a reconciliation of all interfund transfers:

Fund	Transfers in	Fund	Transfers out
General Fund	<u>\$ 1,500,000</u>	Capital Project Fund	<u>\$ 1,500,000</u>
	<u>\$ 1,500,000</u>		<u>\$ 1,500,000</u>

The transfer was made to alleviate unreserved and undesignated operating deficits in the General Fund.

Short term interfund borrowings were necessary at year end to eliminate the deficit pooled cash balance in the Municipal Building Authority of Box Elder School District Fund of \$493,199. The total of \$493,199 was borrowed from the General Fund and was re-paid at the beginning of the new fiscal year. The amounts are shown as Due to/from other funds in the governmental funds balance sheet and the government-wide statement of net assets.

"Let us think of education as the means
of developing our greatest abilities,
because in each of us
there is a private hope and dream
which, fulfilled,
can be translated into benefit
for everyone
and greater strength for our nation."

John F. Kennedy

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Property tax	\$ 3,767,578	\$ 3,767,578	\$ 3,679,060	\$ (88,518)
Earnings on investments	48,716	50,000	79,346	29,346
Other	-	150	-	(150)
Total revenues	<u>3,816,294</u>	<u>3,817,728</u>	<u>3,758,406</u>	<u>(59,322)</u>
Expenditures:				
Debt service:				
Principal retirement	3,620,000	3,620,000	3,620,000	-
Interest and fiscal charges	371,000	371,248	374,000	(2,752)
Other	118,580	118,332	7,500	110,832
Total expenditures	<u>4,109,580</u>	<u>4,109,580</u>	<u>4,001,500</u>	<u>108,080</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(293,286)</u>	<u>(291,852)</u>	<u>(243,094)</u>	<u>48,758</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Bond refunding and related costs	-	-	-	-
Operating transfers in	9,580	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>9,580</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(283,706)</u>	<u>(291,852)</u>	<u>(243,094)</u>	<u>48,758</u>
Fund balance - beginning	<u>975,991</u>	<u>975,991</u>	<u>975,991</u>	<u>-</u>
Fund balance - ending	<u>\$ 692,285</u>	<u>\$ 684,139</u>	<u>\$ 732,897</u>	<u>\$ 48,758</u>

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR CAPITAL PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Local sources:				
Property taxes	\$ 2,551,042	\$ 2,920,479	\$ 2,675,680	\$ (244,799)
Charges for services	135,000	80,000	63,815	(16,185)
Earnings on investments	15,000	58,000	73,082	15,082
Other revenue	-	-	33,687	33,687
Total local sources	2,701,042	3,058,479	2,846,264	(212,215)
State sources:				
Restricted grants in aid	300,000	78,160	78,160	-
Total state sources	300,000	78,160	78,160	-
Federal sources:				
Restricted grants in aid	-	-	-	-
Total federal sources	-	-	-	-
Total revenues	3,001,042	3,136,639	2,924,424	(212,215)
Expenditures:				
Support services:				
Operation and maintenance of facilities	425,000	455,000	425,000	30,000
Facilities acquisition/construction	2,487,274	9,231,571	2,138,062	7,093,509
Debt service:				
Principal retirement	-	142,000	145,730	(3,730)
Interest and fiscal charges	-	12,000	7,016	4,984
Other	-	-	-	-
Total expenditures	2,912,274	9,840,571	2,715,808	7,124,763
Excess (deficiency) of revenues over (under) expenditures	88,768	(6,703,932)	208,616	6,912,548
Other Financing Sources (Uses):				
Insurance Proceeds	-	-	2,860	2,860
Proceeds from bonds	-	8,050,000	-	(8,050,000)
Sale of fixed assets	400,000	24,000	54,270	30,270
Operating Transfers In	-	-	-	-
Operating Transfers Out	(720,000)	(1,400,000)	(1,500,000)	(100,000)
Total other financing sources (uses)	(320,000)	6,674,000	(1,442,870)	(8,116,870)
Net change in fund balances	(231,232)	(29,932)	(1,234,254)	(1,204,322)
Fund balance - beginning	2,072,860	2,072,860	2,072,860	-
Fund balance - ending	\$ 1,841,628	\$ 2,042,928	\$ 838,606	\$ (1,204,322)

BOX ELDER SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds				
	Non K-12 Programs	School Lunch	Total	Building Reserve	Total Nonmajor Governmental
Assets:					
Cash and investments	\$ 510,665	\$ 590,802	\$ 1,101,467	\$ 989,034	\$ 2,090,501
Accounts receivable	25,202	148	25,350	-	25,350
Intergovernmental receivable	-	78,672	78,672	-	78,672
Inventory	-	153,715	153,715	-	153,715
Total assets	<u>\$ 535,867</u>	<u>\$ 823,337</u>	<u>\$ 1,359,204</u>	<u>\$ 989,034</u>	<u>\$ 2,348,238</u>
Liabilities:					
Accounts payable	\$ 52,478	\$ 11,786	\$ 64,264	\$ -	\$ 64,264
Accrued salaries and benefits	51,723	77,429	129,152	-	129,152
Deferred revenue	252,989	-	252,989	-	252,989
Interfund payable	-	-	-	-	-
Accrued medical benefits	-	-	-	-	-
Total liabilities	<u>357,190</u>	<u>89,215</u>	<u>446,405</u>	<u>-</u>	<u>446,405</u>
Fund balances:					
Reserved for:					
Inventories	-	153,715	153,715	-	153,715
Unreserved:					
Designated for:					
Undistributed reserve	-	-	-	-	-
Program designations	83,262	-	83,262	989,034	1,072,296
Undesignated, reported in:					
Unappropriated fund balance	95,415	580,407	675,822	-	675,822
Total fund balances	<u>178,677</u>	<u>734,122</u>	<u>912,799</u>	<u>989,034</u>	<u>1,901,833</u>
Total liabilities and fund balances	<u>\$ 535,867</u>	<u>\$ 823,337</u>	<u>\$ 1,359,204</u>	<u>\$ 989,034</u>	<u>\$ 2,348,238</u>

BOX ELDER SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>School Lunch</u>	<u>Non K-12 Programs</u>	<u>Total</u>	
Revenues:				
Property tax	\$ -	\$ 1,071,176	\$ 1,071,176	\$ -
Charges for services	1,323,469	333,827	1,657,296	-
Earnings on investments	11,781	12,962	24,743	23,625
State aid	378,280	608,489	986,769	-
Federal aid	1,358,830	267,138	1,625,968	-
Total revenues	<u>3,072,360</u>	<u>2,293,592</u>	<u>5,365,952</u>	<u>23,625</u>
				<u>5,389,577</u>
Expenditures:				
Instruction	-	770,309	770,309	-
Support services:				
Instructional staff	-	261,071	261,071	-
General administration	-	74,276	74,276	-
Operation and maintenance of facilities	-	14,867	14,867	-
Community services	-	1,205,429	1,205,429	-
Facilities acquisition/construction	-	-	-	-
School lunch services	3,084,124	-	3,084,124	-
Total expenditures	<u>3,084,124</u>	<u>2,325,952</u>	<u>5,410,076</u>	<u>-</u>
Excess of revenues over expenditures	<u>(11,764)</u>	<u>(32,360)</u>	<u>(44,124)</u>	<u>23,625</u>
				<u>(20,499)</u>
Other financing sources:				
Insurance proceeds	-	-	-	-
Sale of fixed assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(11,764)</u>	<u>(32,360)</u>	<u>(44,124)</u>	<u>23,625</u>
				<u>(20,499)</u>
Fund balances - beginning	745,886	211,037	956,923	965,409
Fund balances - ending	<u>\$ 734,122</u>	<u>\$ 178,677</u>	<u>\$ 912,799</u>	<u>\$ 989,034</u>
				<u>\$ 1,901,833</u>

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SCHOOL LUNCH
NONMAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Local sources:				
Lunch sales - children	\$ 1,150,000	\$ 1,186,000	\$ 1,221,429	\$ 35,429
Lunch Sales - adult	65,000	74,700	78,360	3,660
Earnings on investments	5,500	7,000	11,781	4,781
Other Income	5,000	5,330	23,680	18,350
Total local sources	<u>1,225,500</u>	<u>1,273,030</u>	<u>1,335,250</u>	<u>62,220</u>
State sources:				
State lunch program	330,000	310,000	378,280	68,280
Total state sources	<u>330,000</u>	<u>310,000</u>	<u>378,280</u>	<u>68,280</u>
Federal sources:				
School lunch reimbursement	205,000	222,000	224,177	2,177
School lunch free and reduced reimbursement	690,357	900,000	935,775	35,775
School breakfast	130,000	150,000	198,079	48,079
Other child nutrition:				
USDA foods	200,000	-	-	-
Summer migrant	-	-	-	-
Other	700	15,800	799	(15,001)
Total federal sources	<u>1,226,057</u>	<u>1,287,800</u>	<u>1,358,830</u>	<u>71,030</u>
Total revenues	<u>2,781,557</u>	<u>2,870,830</u>	<u>3,072,360</u>	<u>201,530</u>
Expenditures:				
School food services:				
Salaries	1,147,591	1,130,772	1,144,744	(13,972)
Employee benefits	366,994	374,951	373,209	1,742
Purchased services	13,800	14,000	10,789	3,211
Supplies and materials	1,397,691	1,330,000	1,355,164	(25,164)
Equipment	30,000	35,000	20,416	14,584
Other objects	126,730	158,519	179,802	(21,283)
Total expenditures	<u>3,082,806</u>	<u>3,043,242</u>	<u>3,084,124</u>	<u>(40,882)</u>
Net change in fund balances	<u>(301,249)</u>	<u>(172,412)</u>	<u>(11,764)</u>	<u>160,648</u>
Fund balances - beginning	<u>745,886</u>	<u>745,886</u>	<u>745,886</u>	<u>-</u>
Fund balances - ending	<u>\$ 444,637</u>	<u>\$ 573,474</u>	<u>\$ 734,122</u>	<u>\$ 160,648</u>

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
NON K-12 FUND
NONMAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Local sources:				
Property taxes and fee in lieu	\$ 1,019,581	\$ 1,099,151	\$ 1,071,176	\$ (27,975)
Charges for services	271,000	743,399	333,827	(409,572)
Earnings on investments	6,000	6,000	12,962	6,962
Other income	-	-	-	-
Total local sources	<u>1,296,581</u>	<u>1,848,550</u>	<u>1,417,965</u>	<u>(430,585)</u>
State sources:				
Adult high school completion	142,000	204,882	204,882	-
Special education preschool	375,000	375,871	403,607	27,736
Other	13,791	97,362	-	(97,362)
Total State Sources	<u>530,791</u>	<u>678,115</u>	<u>608,489</u>	<u>(69,626)</u>
Federal sources:				
Pre-school incentive	120,000	166,507	119,063	(47,444)
Migrant program	104,000	-	100,631	100,631
Adult education	46,000	100,631	47,444	(53,187)
Total federal sources	<u>270,000</u>	<u>267,138</u>	<u>267,138</u>	<u>-</u>
Total revenues	<u>2,097,372</u>	<u>2,793,803</u>	<u>2,293,592</u>	<u>(500,211)</u>
Expenditures:				
Instruction	741,821	986,898	770,309	216,589
Support services:				
Instructional staff	251,416	334,477	261,071	73,406
General administration	71,528	95,159	74,276	20,883
Operation and maintenance of facilities	14,318	19,048	14,867	4,181
Community services	1,138,289	1,341,365	1,205,429	135,936
Facilities acquisition/construction	-	-	-	-
Total expenditures	<u>2,217,372</u>	<u>2,776,947</u>	<u>2,325,952</u>	<u>450,995</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(120,000)</u>	<u>16,856</u>	<u>(32,360)</u>	<u>(49,216)</u>
Other financing sources (uses):				
Operating transfers in	120,000	-	-	-
Total other financing sources (uses)	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue and other sources over expenditures and other uses	<u>-</u>	<u>16,856</u>	<u>(32,360)</u>	<u>(49,216)</u>
Fund balances - beginning	211,037	211,037	211,037	-
Fund balances - ending	<u>\$ 211,037</u>	<u>\$ 227,893</u>	<u>\$ 178,677</u>	<u>\$ (49,216)</u>

BOX ELDER SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
NONMAJOR BUILDING RESERVE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Local sources:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	12,000	16,000	23,625	7,625
Other revenue	-	-	-	-
Total local sources	12,000	16,000	23,625	7,625
State sources:				
Restricted grants in aid	-	-	-	-
Total state sources	-	-	-	-
Total revenues	12,000	16,000	23,625	7,625
Expenditures:				
Capital outlay:				
Salaries	-	-	-	-
Employee Benefits	-	-	-	-
Purchased Services	-	-	-	-
Land and Improvements	-	-	-	-
Buildings	976,346	-	-	-
Vehicles	-	-	-	-
Furniture and Fixtures	-	-	-	-
Other New Equipment	-	-	-	-
Total Capital Outlay	976,346	-	-	-
Total expenditures	976,346	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(964,346)	16,000	23,625	7,625
Other Financing Sources (Uses):				
Insurance Proceeds	-	-	-	-
Sale of fixed assets	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(964,346)	16,000	23,625	-
Fund balance - beginning	965,409	965,409	965,409	-
Fund balance - ending	\$ 1,063	\$ 981,409	\$ 989,034	\$ 7,625

“Education is what survives
when what has been learned
has been forgotten.”

B.F. Skinner

“Education costs money,
but then
so does ignorance.”

Sir Claus Moser

Reports and Schedules
Required by
OMB Circular A-133

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Box Elder School District
Brigham City, Utah 84302

Compliance

We have audited the compliance of Box Elder School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Box Elder School District's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Box Elder School District's management. Our responsibility is to express an opinion on Box Elder School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Box Elder School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Box Elder School District's compliance with those requirements.

In our opinion, Box Elder School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Box Elder School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Box Elder School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended for the information of the management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC

Brigham City, Utah
October 6, 2005

BOX ELDER SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass - Thru Grantor/ Program Title	Federal CDFA Number	Pass-Thru Grantor's Number	Expenditures
U.S. Department of Education			
<u>Passed through Utah State Office of Education:</u>			
Adult Education-State Administered Basic Grant Program	84.002A	33	\$ 47,444
Chapter I Grants to Local Educational Agencies	84.010A	8	655,275
Migrant Education-Basic State Grant Program	84.011A	15	100,631 *
Chapter 1 Program for Neglected and Delinquent Children	84.013A	13	3,241
Special Education-Grants to States	84.027A	19	2,152,377
Vocational Education-Basic Grants to States	84.048A	20/21	185,031
Special Education-Preschool Grants	84.173A	52	119,063
Service for Expelled/Suspended	84.184	59	68,528
Drug Free Schools and Communities - State Grants	84.186A	9	43,870
Tech-Prep Education	84.243A	26	73,159
Innovative Programs & Administration	84.298A	90	103,950 *
Tech-Literacy Challenge	84.318X	7	25,653
English Language Acquisition-State Formula	84.365A	73	25,783
Improving Teacher Quality Grants	84.367	74	410,669
<u>Passed through Boys and Girls Club of Brigham City:</u>			
FIE Earmark	84.215F		1,848
Total U.S. Department of Education			<u>4,016,522</u>
U.S. Department of Agriculture			
<u>Passed through Utah State Office of Education:</u>			
Food Distribution	10.550	39	194,938
School Breakfast Program	10.553	44	198,079 *
National School Lunch Program	10.555	42/43	1,159,952 *
Summer Food Service Program for Children	10.559	48/45	799
<u>Passed through Box Elder County:</u>			
Schools and Roads-Grants to States	10.665	N/A	12,404
Total U.S. Department of Agriculture			<u>1,566,172</u>
U.S. Department of Health & Human Services			
<u>Passed through Utah Department of Health:</u>			
Medical Assistance Program (Medicaid: Title XIX)	93.778	876000480005	649,875
Total U.S. Department of Health & Human Services			<u>649,875</u>
Total Expenditures of Federal Awards			<u>\$ 6,232,569</u>

*Major Programs

The accompanying notes are an integral part of this schedule.

BOX ELDER SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 PURPOSE OF SCHEDULE

The accompanying Schedule of Expenditures of Federal Awards is a supplementary schedule to the District's financial statements and is presented for purposes of additional analysis. Because the schedule presents only a selected portion of the activities of the District, it is not intended to, and does not, present either the financial position, changes in fund balances or other current funds revenue, expenditures and other changes of the District.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the schedule is presented in accordance with OMB Circular A-133.

Pursuant to the Single Audit Act of 1984 (Public Law 98-502), the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, would be included in federal awards, if applicable, and therefore, would be reported on the schedule. Federal awards do not include direct federal cash assistance to individuals. Solicited contracts between the State and Federal government for which the Federal Government procures tangible goods or services are not considered to be federal awards.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the levels of expenditures or expenses to be used in defining Type A and Type B federal award programs. Type A programs, for the District, are those programs, which exceed \$300,000 in federal expenditures, distributions, or issuances for the year ended June 30, 2005.

**BOX ELDER SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity

The reporting entity is fully described in Note 1 of the District's financial statements. The schedule includes all federal award programs administered by the District for the year ended June 30, 2005.

Basis of Accounting

The expenditures in the schedule are recognized as incurred based on the accrual basis of accounting and the cost accounting principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments*. Under these cost principles certain types of expenditures are not allowable or are limited as to reimbursement.

The schedule does not include matching expenditures.

Some of the District's federal awards are received directly from the granting federal agency (i.e., the District is the primary recipient). However, the majority of federal awards, as identified on the schedule, are passed through a separate entity prior to receipt by the District (i.e., the District is a sub-recipient).

BOX ELDER SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 RECONCILIATION OF AMOUNTS REPORTED ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE DISTRICT'S FINANCIAL REPORT

The following is a reconciliation of the amounts reported in the Schedule of Expenditures of Federal Awards with the amounts reported in the District's fund financial statements.

Federal funds reported in the General Fund	\$ 3,919,967
Federal funds reported in the Non K-12 Fund	267,138
Federal funds reported in the School Lunch Fund	<u>1,358,830</u>
	\$ 5,545,935
Plus:	
Amount recorded on Schedule for Food Distribution not recorded on the fund financial statements.	194,938
Amount recorded in Agency Fund not recorded as revenue on the fund financial statements.	223,003
Amount of Medicaid funds recorded as federal in General Fund statements but are state funds	(250,978)
Amount recorded in Agency Fund for Medicaid and passed through to Cache County School District and Logan City School District not reported as revenue on the fund financial statements	<u>519,671</u>
Expenditures of Federal Awards	<u><u>\$ 6,232,569</u></u>

BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___yes Xno

Reportable condition(s) identified not
considered to be a material weakness?

___yes Xnone reported

Noncompliance material to financial statements

___yes Xno

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

___yes Xno

Reportable condition(s) identified not
considered to be a material weakness?

___yes Xnone reported

Type of Auditor's report on compliance for major
programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)?

___yes Xno

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

10.553

School Breakfast Program

10.555

National School Lunch Program

84.011A

Migrant Education-Basic State Grant

84.298

Innovative Programs

Dollar threshold used to distinguish between Type
A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Xyes ___no

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section II - Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

There were no reportable conditions or material weaknesses noted during our audit, which are required to be reported. Accordingly, no such matters are reported.

Section III - Federal Award Findings and Questioned Costs

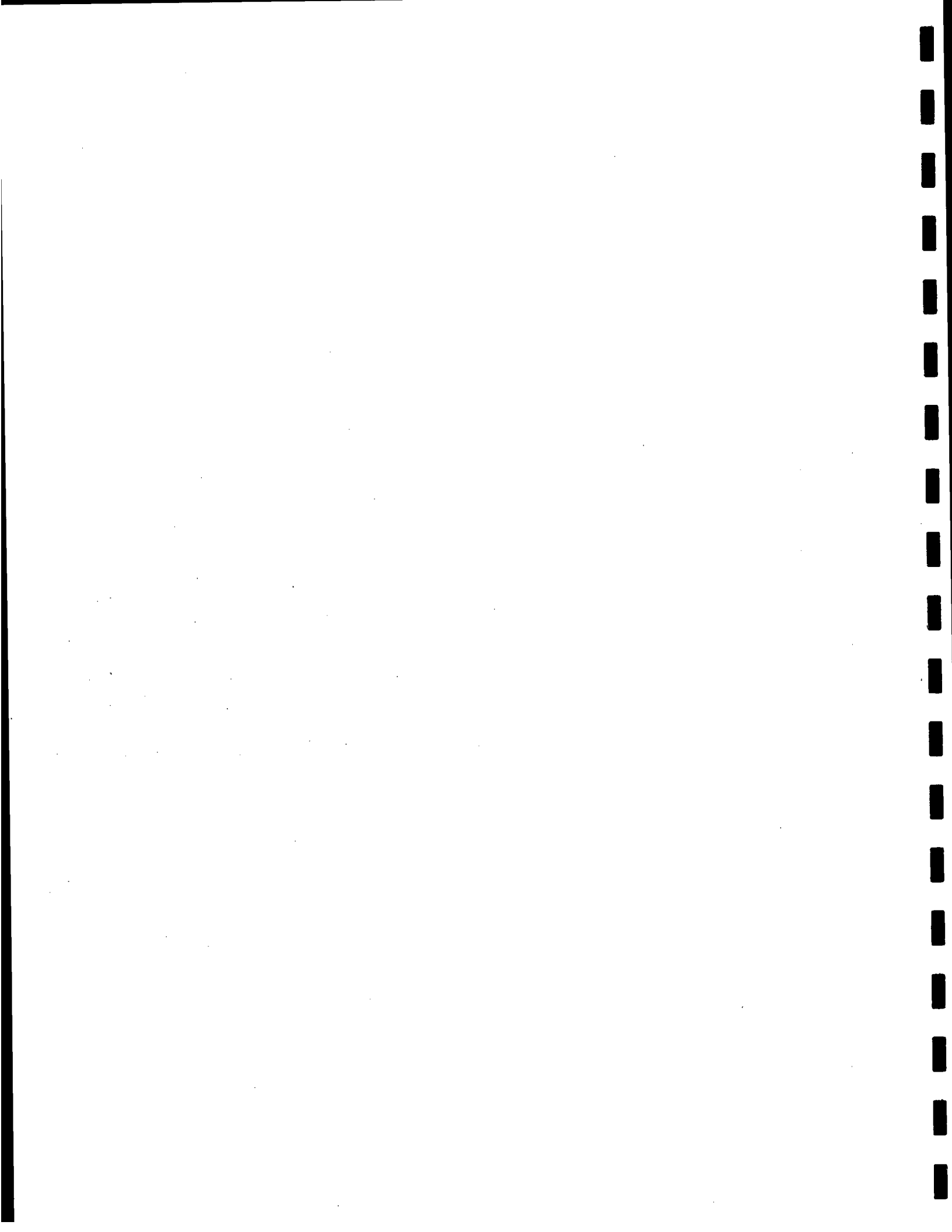
There were no federal award findings or questioned costs noted during our audit that are required to be reported in accordance with OMB Circular A-133. Accordingly, no such matters are reported.

**BOX ELDER SCHOOL DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

**BOX ELDER SCHOOL DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Box Elder School District

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Box Elder School District as of and for the year ended June 30, 2005, which collectively comprise Box Elder School District's basic financial statements and have issued our report thereon dated October 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Box Elder School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Box Elder School District in the accompanying Schedule of Findings, Recommendations and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Box Elder School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which have been reported to management Box Elder School District in the accompanying Schedule of Findings, Recommendations, and Responses.

This report is intended solely for the information and use of Box Elder School District's management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC
Brigham City, Utah
October 6, 2005

AUDITORS' REPORT ON LEGAL COMPLIANCE

**To the Board of Education
Box Elder School District**

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Box Elder School District, for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 6, 2005. As part of our audit, we have audited the Box Elder School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The District had the following major State assistance programs from the State of Utah:

**State Office of Education:
Minimum School Program
School Lunch**

The District also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the District's financial statements.)

Drivers Education

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Issues**

The management of the Box Elder School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which is described in the accompanying Schedule of Findings, Recommendations and Responses. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Box Elder School District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Wiggins & Co., PC

Brigham City, Utah
October 6, 2005

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

STATE LEGAL COMPLIANCE FINDINGS

05-01 BUDGETARY COMPLIANCE

Finding:

Utah State Statutes require that the School District not incur expenditures in excess of the total appropriations for any fund during the fiscal year. We noted that the actual expenditures in the School Food Services Fund exceeded the total appropriations during the fiscal year ended June 30, 2005.

Recommendation:

We recommend that the administrative staff of the School District carefully monitor the expenditures and transfers of all funds to ensure that they are not in excess of the approved budgetary appropriations.

Response:

The School District administrative staff carefully prepares and monitors budgetary amounts. Attention is given to this process and it is monitored regularly. We will continue to diligently work on this issue to ensure that the most accurate figures are developed and reported. We will also more closely monitor the adjustments made for year end reporting to ensure compliance with budgetary statutes.

05-02 CASH MANAGEMENT

Finding:

We noted during our audit of cash and investments that the School District received a donation of aggressive growth mutual funds. Aggressive growth mutual funds are not an allowed investment for a local government per Utah Code 51-7-11(3). The normal practice of the School District, when receiving donated mutual funds, is to liquidate the mutual funds within five days of receipt. However, in this case, liquidation did not occur within the five day period and the mutual funds were still held at year end.

Recommendation:

We recommend that the investments of the School District be in compliance with Utah Code 51-7-11(3) and that donated investments, that are not in compliance with Utah Code be liquidated in accordance with School District practice.

Response:

The Business Office staff will carefully monitor donated investment accounts to assure they are liquidated or reinvented in accordance with Board policy.

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

05-03 TRUTH IN TAXATION

Finding:

Utah Code 59-2-919 requires that if a local governmental entity proposes a tax rate in excess of the certified tax rate, the local governmental entity must advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county. The advertisement must appear once each week for the two weeks preceding the hearing. The date of the advertisement must be a least seven days prior to the hearing. We noted that advertisement for the proposed tax rate was published the day of the hearing and one week prior to the hearing. This does not meet the required 14 days advertisement period as required in the Utah Code.

Recommendation:

We recommend that the School District take the necessary steps to meet the requirements of the Utah Code when proposing a tax rate that exceeds the certified tax rate.

Response:

In the past we have followed counsel from the Utah State Tax Commission, which is apparently not in accordance with Utah Code. Staff has already adjusted calendars to assurance compliance.

05-04 FALL ENROLLMENT PROCEDURES-FALL 2005:

Finding:

We noted during our agreed upon procedures engagement for the Fall Enrollment Report for the first school day in October 2005, that there were several instances where the required transfer documentation was not in accordance with requirements of the Utah State Office of Education (USOE). These instances were reported, to the USOE and District management, in a separate report dated October 3, 2005.

Recommendation:

We recommend that District management conduct training sessions emphasizing the additional documentation requirements. We also recommend that follow-up visits be made to ensure that documentation requirements are understood and followed.

Response:

The Business Office will conduct training for school personnel responsible for attendance reporting. Such reporting will also be reviewed as part of our annual internal review of school business functions.

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

OTHER FINDINGS

05-05 PURCHASING PROCEDURES FOR CAPITAL ASSETS

Finding:

The purchasing policies of the School District indicate that schools should purchase all capital assets through the purchasing system administered at the District Office. We found that several secondary schools did not follow this policy and purchased capital assets through their own disbursement systems. The purchasing policy regarding capital assets is in place for several reasons but mainly so that District Office personnel can ensure that proper purchasing procedures have been followed, that all attempts have been made to obtain the best price and that the purchases are properly recognized and reported in the capital asset records maintained at the District Office.

Recommendation:

We recommend that the School District administrative personnel re-emphasize the policy related to the purchasing of capital assets to all secondary school principals and staff and that the policy be enforced on all future purchases of capital assets.

Response:

The Business Office will inform and instruct secondary school principals and clerical staff regarding district policy related to the purchasing of capital assets. We will closely monitor capital transactions as they are reported to the Business Office.

05-06 PAYMENTS FOR SCHOOL BUS DELIVERY

Finding:

The School District has a practice of allowing its new buses to be picked up at the vendor's plant by bus drivers who are employed by the School District. The practice is to provide the bus drivers with the amount of funds that the vendor would charge for delivery without a requirement or accountable plan in force to require the bus drivers to provide substantiation for expenses incurred.

Federal and state payroll regulations indicate that any payments to employees absent an accountable plan, as defined by the Internal Revenue Service, would result in compensation to the employee and require the School District to report such information on W-2's and payroll tax filings.

Recommendation:

We recommend that any future payments to employees for the delivery of buses be in accordance with federal and state payroll requirements.

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

05-06 PAYMENTS FOR SCHOOL BUS DELIVERY (continued)

Response:

The District Transportation Department has been informed that future purchases of buses will be FOB Brigham City, Utah.

05-07 OTHER PURCHASING REQUIREMENTS

Finding:

In our testing of the accounts payable disbursements, we noted an instance where the accounts payable voucher was only approved by the Supervisor-Director. School District policy requires that accounts payable vouchers be approved by the Principal, if applicable, the Supervisor-Director and the Finance Director or Business Administrator.

We also noted an instance where the purchasing policies required the use of a purchase order but no purchase order was used. The only documentation for the purchase was an invoice, which was properly approved.

Recommendation:

We recommend that the purchasing policies of the School District be re-emphasized to all employees and that future disbursements comply with such policies.

Response

The Business Office will re-emphasize the district disbursement policy with school administration and staff.

05-08 VOID CHECKS

Finding:

We found several void checks that were not entered into the bank reconciliation system in a timely manner. This resulted in an audit adjustment, which if not made, would have had a material affect on the financial statements.

**BOX ELDER SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

05-08 VOID CHECKS (continued)

Recommendation:

The discovery of void checks and the timely entering of the void checks into the bank reconciliation system is a very important internal control. Without this control, bank reconciliations could be materially misstated. We recommend that this function be given prompt attention every month and that outstanding checks, especially those with large balances, be reviewed and investigated. In order to enhance internal controls, this function should be performed by an employee not involved in the disbursement process.

Response:

This function has been reassigned to a different staff person.

**BOX ELDER SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2005**

STATE LEGAL COMPLIANCE FINDINGS

04-01 BUDGETARY COMPLIANCE

Finding:

Utah State Statutes require that the School District shall not incur expenditures in excess of the total appropriations for any fund during the fiscal year. We noted that the actual expenditures in the Capital Projects Fund and the Non K-12 Fund exceeded the total appropriations during the fiscal year ended June 30, 2004.

Recommendation:

We recommend that the administrative staff of the School District carefully monitor the expenditures and transfers of all funds to ensure that they are not in excess of the approved budgetary appropriations.

Status:

The Capital Projects Fund and the Non K-12 Fund did not have expenditures in excess of budget in 2005, however, the School Food Services Fund had expenditures in excess of appropriations in 2005. See 05-01.